

## AUDITING PROCEDURES REPORT

Issued under P.A.2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Grosse Pointe, Michigan	County Wayne
Audit Date June 30, 2005	Opinion Date November 29, 2005	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised,
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes   ☒ no   1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes   ☒ no   2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (PA. 275 of 1980).
- ☒ yes   ☐ no   3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes   ☒ no   4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes   ☒ no   5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes   ☒ no   6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes   ☒ no   7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes   ☒ no   8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes   ☒ no   9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson			
Street Address 5750 New King Street, Suite 200	City Troy	State MI	Zip 48098
<div>Accountant Signature  Thomas E. Darling, CPA</div>			



**CITY OF GROSSE POINTE  
MICHIGAN**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED  
JUNE 30, 2005**

**CITY OF GROSSE POINTE, MICHIGAN**  
**Basic Financial Statements and Supplementary Information**  
**For the Year Ended June 30, 2005**

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**CITY OF GROSSE POINTE, MICHIGAN**  
**Basic Financial Statements and Supplementary Information**  
**For the Year Ended June 30, 2005**

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**REHMANN ROBSON**

*Certified Public Accountants*

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## **INDEPENDENT AUDITORS' REPORT**

**November 29, 2005**

To the City Council  
City of Grosse Pointe  
Wayne County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Grosse Pointe, Michigan***, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the ***City of Grosse Pointe, Michigan's*** management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Grosse Pointe, Michigan***, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the General and Local Streets funds for the year then ended in conformity with accounting principles general accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2005, on our consideration of the ***City of Grosse Pointe, Michigan's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on Pages 3 through 11 and the Schedule of Funding Progress on Pages 45 and 46 are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the

methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the *City of Grosse Pointe, Michigan's* basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

# CITY OF GROSSE POINTE, MICHIGAN

## Management's Discussion and Analysis

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As management of the *City of Grosse Pointe, Michigan*, (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the activities of the City for the fiscal year ended June 30, 2005.

### Financial Highlights

- The current fiscal year ended with total unreserved, undesignated fund balances for all governmental type funds in the amount of \$1,973,511.
- The General Fund unreserved fund balance amounted to \$3,414,264 at fiscal year end.
- The City of Grosse Pointe extended an installment loan to the Marina Fund on January 1, 2005 for \$1,350,000 bearing interest at 6%. This will yield \$81,000 in interest to the General Fund during the first year of the advance.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include judicial, general government, public safety, public works, recreation and culture, and health and welfare. The business-type activities of the City include water distribution and sanitary sewer operations, a municipal parking system, and a marina.

**Fund financial statements.** A *Fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.



# CITY OF GROSSE POINTE, MICHIGAN

## Management's Discussion and Analysis

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1. **Governmental funds** are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General and Local Streets funds, each of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* after the *Notes to Financial Statements*.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets for the General Fund and Local Streets funds.

2. **Proprietary funds.** The City maintains one type of proprietary fund: *Enterprise funds* are used to provide the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sanitary sewer operations, its municipal parking system, and marina.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sanitary sewer operations, municipal parking system, and marina, all of which are considered to be major funds of the City.

3. **Fiduciary funds.** The Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also

# CITY OF GROSSE POINTE, MICHIGAN

## Management's Discussion and Analysis

presents certain *required supplementary information*. This is limited to a schedule concerning the City's progress in funding its obligation to provide pension benefits to its employees.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Grosse Pointe, assets exceeded liabilities by \$21,969,547 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (74%) reflects its investment in capital assets (e.g., land, buildings and improvements, vehicles, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to residents; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

#### City of Grosse Pointe's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 6,143,362	5,751,334	\$ 1,114,499	\$ 1,264,018	\$ 7,257,861	\$ 7,015,352
Capital assets, net	14,602,277	14,476,300	5,569,971	4,443,917	20,172,248	18,920,217
Total assets	20,745,639	20,227,634	6,684,470	5,707,935	27,430,109	25,935,569
Current liabilities	1,271,359	994,256	197,687	405,858	1,469,046	1,400,114
Noncurrent liabilities	3,991,516	4,184,964	-	-	3,991,516	4,184,964
Total liabilities	5,262,875	5,179,220	197,687	405,858	5,460,562	5,585,078
Net assets:						
Invested in capital assets, net of related debt	10,612,277	11,275,039	5,569,971	4,443,917	16,182,248	15,718,956
Restricted assets	502,800	560,251	-	-	502,800	560,251
Unrestricted	4,367,687	4,166,863	916,812	1,859,005	5,284,499	6,025,868
Total net assets	\$ 15,482,764	\$ 16,002,153	\$ 6,486,783	\$ 6,302,922	\$21,969,547	\$22,305,075

An additional portion of the City's net assets (2%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* of \$5,284,499 or 24%, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The City's net assets decreased by \$(335,529) during the current fiscal year. This reduction of City funds was a budgeted activity of expenditures for the purpose of refurbishing aging City assets.

# CITY OF GROSSE POINTE, MICHIGAN

## Management's Discussion and Analysis

### City of Grosse Pointe's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenue:						
Program revenues:						
Charges for services	\$ 491,001	506,764	\$ 2,201,151	\$ 2,114,115	\$ 2,692,152	\$ 2,620,879
Operating grants and contributions	325,785	340,585	-	-	325,785	340,585
Capital grants and contributions	50,765	35,533	-	-	50,765	35,533
General revenues:						
Property taxes	5,070,471	4,791,801	-	-	5,070,471	4,791,801
State shared revenue	511,989	519,383	-	-	511,989	519,383
Grants and contributions not restricted to specific programs	755,570	661,540	-	-	755,570	661,540
Other	-	71,225	18,787	37,439	18,787	108,664
Total revenues	<u>7,205,581</u>	<u>6,926,831</u>	<u>2,219,938</u>	<u>2,151,554</u>	<u>9,425,519</u>	<u>9,078,385</u>
Expenses:						
Judicial	136,967	156,430	-	-	136,967	156,430
General government	1,067,053	941,404	-	-	1,067,053	941,404
Public safety	2,912,248	2,798,780	-	-	2,912,248	2,798,780
Public works	2,639,048	2,868,820	-	-	2,639,048	2,868,820
Recreation and culture	769,612	707,107	-	-	769,612	707,107
Interest on long-term debt	200,043	191,999	-	-	200,043	191,999
Water and sewer	-	-	1,533,852	1,474,892	1,533,852	1,474,892
Automobile parking	-	-	278,521	213,664	278,521	213,664
Marina	-	-	223,704	95,265	223,704	95,265
Total expenses	<u>7,724,971</u>	<u>7,664,540</u>	<u>2,036,077</u>	<u>1,783,821</u>	<u>9,761,048</u>	<u>9,448,361</u>
Increase (decrease) in net assets	(519,390)	(737,709)	183,861	367,733	(335,529)	(369,976)
Net assets-beginning	16,002,154	16,739,862	6,302,922	5,935,189	22,305,076	22,675,051
Net assets-ending	<u>\$ 15,482,764</u>	<u>\$ 16,002,153</u>	<u>\$ 6,486,783</u>	<u>\$ 6,302,922</u>	<u>\$21,969,547</u>	<u>\$22,305,075</u>

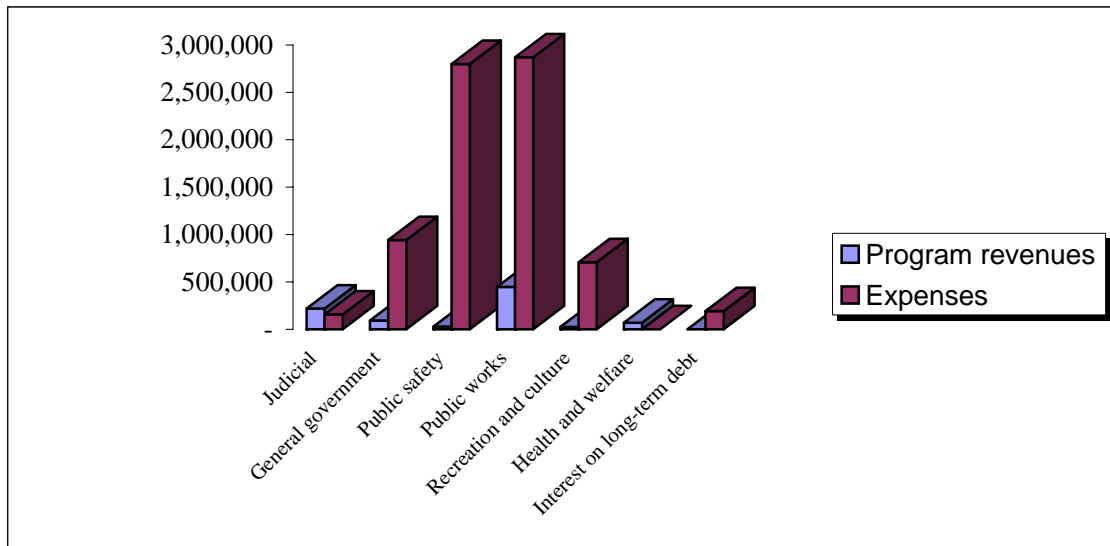
**Governmental activities.** Governmental activities decreased the City's net assets by \$(519,390), thereby accounting for 155% of the City's change in total net assets. The key factors are expenses related primarily to payroll and benefits used to provide a level of City services that is in excess of current City revenue streams.

# CITY OF GROSSE POINTE, MICHIGAN

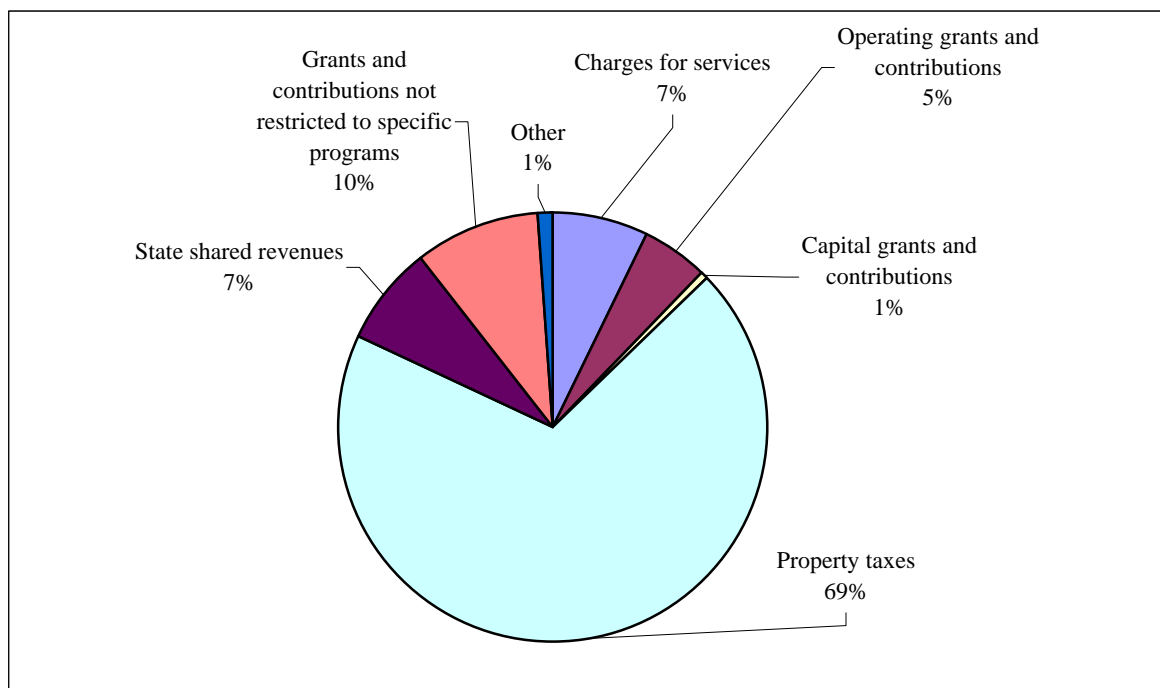
## Management's Discussion and Analysis

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### Expenses and Program Revenues – Governmental Activities



### Revenues by Source – Governmental Activities



# CITY OF GROSSE POINTE, MICHIGAN

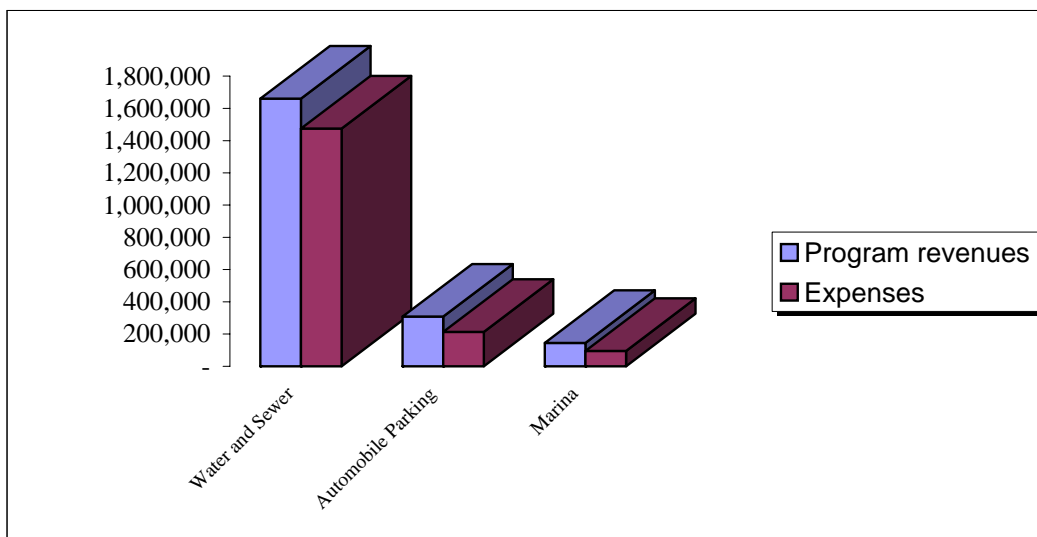
## Management's Discussion and Analysis

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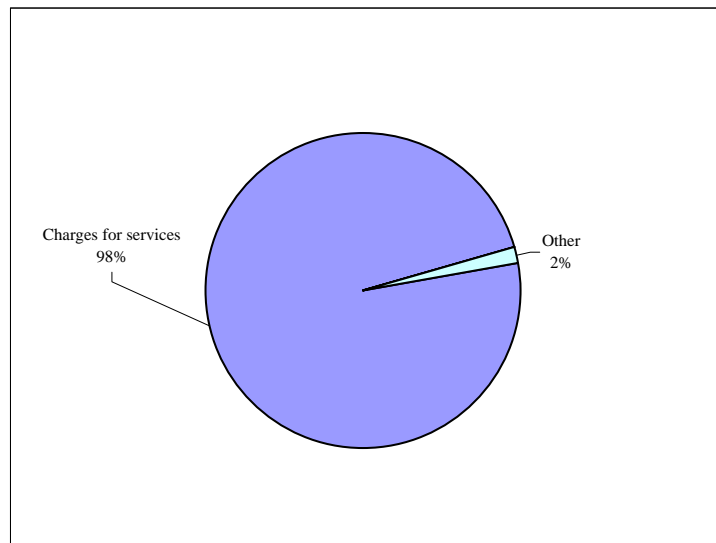
**Business-type Activities.** Business-type activities increased the City's net assets by \$183,861, accounting for the offset to the City's total decrease in net assets. Key elements of this increase are as follows:

- The fee structure for the business type activities is designed to build cash reserves for anticipated future capital expenditures.

### Expenses and Program Revenues - Business-Type Activities



### Revenues by Source – Business-Type Activities



# CITY OF GROSSE POINTE, MICHIGAN

## Management's Discussion and Analysis

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### Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$5,425,180, an increase of \$104,598 in comparison with the prior year. Approximately 36% of this total amount \$1,973,511 constitutes *unreserved, undesignated fund balance*, which is available for spending at the government's discretion. Another 36%, \$1,941,586 is *unreserved, designated*. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to other purposes.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, *unreserved* fund balance of the general fund was \$3,414,264, while total fund balance was \$4,921,320. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 59% of total general fund expenditures, while total fund balance represents 84% of the same amount.

The fund balance of the City's general fund increased by \$160,989 during the current fiscal year. This is primarily attributable to the effects of cost containment measures.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,435,007 and the Automobile Parking System amounted to \$983,075. The increase in net assets for both funds was \$191,934 and \$64,170, respectively. Over the past several years, the net assets of the Water and Sewer Fund was allowed to build up in order to address the continuing maintenance costs of an aging system. These net assets are offset by a deficit to unrestricted net assets in the Marina Fund in the amount of \$(1,501,270) representing a decrease in net assets of \$(72,243).

### General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor. The decrease in budgeted revenues of \$(3,000) and increase in budgeted expenditures of \$194,352 can be briefly summarized as follows:

- Budgeted expenditures were increased due to additional costs associated with planning, development and legal fees related to downtown project developments of approximately \$100,000.
- Budgeted expenditures were also increased due to additional overtime required in the public safety department of approximately \$50,000.

# CITY OF GROSSE POINTE, MICHIGAN

## Management's Discussion and Analysis

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The following budget to actual variances occurred:

- Property tax revenues were under budget by approximately \$140,000.
- Federal revenues fell short of anticipated amounts by nearly \$170,000.
- Other miscellaneous revenues offset these shortfalls by exceeding budgeted amounts by \$184,000.
- Expenses in several areas of the City were under budgeted amounts, including the following:
  - General government, under budget by \$70,000.
  - Public works, under budget by \$110,000.
  - Parks and recreation, under budget by \$66,000,
  - and capital outlay, under budget by \$124,000.

### Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005, amounted to \$20,172,248 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, vehicles, and roads, highways, and other infrastructure. The total decrease in the City's investment in capital assets for the current fiscal year was \$(702,553) or -3% which represents a decrease in governmental activities of \$(827,762) or -5%, and an increase in business-type activities of \$125,209 or 2%.

Major capital asset events during the current fiscal year included the following:

- Engineering costs associated with the water and sanitary sewer

#### City of Grosse Pointe's Capital Assets (net of depreciation)

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Land	\$ 953,739	\$ 1,000,845	\$ 1,954,584
Buildings and systems	4,261,681	4,486,513	8,748,194
Vehicles and Equipment	841,768	82,613	924,381
Improvements	606,089		606,089
Elworthy Park	294,522		294,522
Other	2,812,506		2,812,506
Infrastructure	4,831,972		4,831,972
Total	<u>\$ 14,602,277</u>	<u>\$ 5,569,971</u>	<u>\$ 20,172,248</u>

Further information regarding capital assets can be found in the notes to the financial statements.

# CITY OF GROSSE POINTE, MICHIGAN

## Management's Discussion and Analysis

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**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$3,990,000 , backed by the full faith and credit of the government. Its purpose is attributable in total to governmental activities.

### City of Grosse Pointe's Outstanding Debt General Obligation Bonds

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Building Authority bonds	\$ 1,540,000	\$ -	\$ 1,540,000
General obligation bonds	2,450,000	-	2,450,000
	<u>\$ 3,990,000</u>	<u>\$ -</u>	<u>\$ 3,990,000</u>

There were no new issues of general obligation debt during the fiscal year ended. Total obligation debt decreased by \$(165,000) due to payments on principal by the City during the year.

Further information regarding long-term debt can be found in the notes to the financial statements.

### Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the City's budget for the 2005-06 fiscal year:

- Current property development and projected assessed valuation.
- The reduction of State Shared Revenue.
- Inflation and the rising cost of employee benefits.
- Public Safety Contract negotiations.
- Rising water supply and sewage processing cost.
- Expanded Recreation Program Services and the associated expenses.
- Planning for additional Forestry expenditures as it relates to the Ash Borer infestation.
- Capital expenditures for aging infrastructure (Streets, Water Mains and Sewers) along with capital expenditures for equipment replacement.

### Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 17147 Maumee Avenue, Grosse Pointe, Michigan 48230.



***BASIC FINANCIAL  
STATEMENTS***

**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Assets</b>			
Cash and investments	\$ 4,391,630	\$ 1,660,151	\$ 6,051,781
Receivables (net)	674,378	448,599	1,122,977
Internal balances	997,391	(997,391)	-
Prepaid expenses	79,963	3,140	83,103
Capital assets not being depreciated	953,739	1,000,845	1,954,584
Capital assets being depreciated, net	13,648,538	4,569,126	18,217,664
<b>Total assets</b>	<b>20,745,639</b>	<b>6,684,470</b>	<b>27,430,109</b>
<b>Liabilities</b>			
Accounts payable	727,207	175,082	902,289
Unearned revenue	32,712	22,605	55,317
Noncurrent liabilities:			
Due within one year	511,440	-	511,440
Due in more than one year	3,991,516	-	3,991,516
<b>Total liabilities</b>	<b>5,262,875</b>	<b>197,687</b>	<b>5,460,562</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	10,612,277	5,569,971	16,182,248
Restricted for:			
Highways and streets	8,633	-	8,633
Public safety	19,167	-	19,167
Other purposes	475,000	-	475,000
Unrestricted	4,367,687	916,812	5,284,499
<b>Total net assets</b>	<b>\$ 15,482,764</b>	<b>\$ 6,486,783</b>	<b>\$ 21,969,547</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
Judicial	\$ 136,967	\$ 204,369	\$ -	\$ -	\$ 67,402
General government	1,067,053	77,696	-	50,765	(938,592)
Public safety	2,912,248	-	-	-	(2,912,248)
Public works	2,639,048	115,024	325,785	-	(2,198,239)
Recreation and culture	769,612	23,683	-	-	(745,929)
Health and welfare	-	70,229	-	-	70,229
Interest on long-term debt	200,043	-	-	-	(200,043)
Total governmental activities	7,724,971	491,001	325,785	50,765	(6,857,420)
Business-type activities:					
Water and sewer	1,533,852	1,719,430	-	-	185,578
Automobile parking	278,521	330,396	-	-	51,875
Marina	223,704	151,325	-	-	(72,379)
Total business-type activities	2,036,077	2,201,151	-	-	165,074
Total primary government	\$ 9,761,048	\$ 2,692,152	\$ 325,785	\$ 50,765	\$ (6,692,346)

(Continued)

**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF ACTIVITIES (CONCLUDED)**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>Changes in net assets</b>			
Net (expense) revenue	\$ (6,857,420)	\$ 165,074	\$ (6,692,346)
General revenues:			
Property taxes	5,070,471	-	5,070,471
State shared revenue	511,989	-	511,989
Grants and contributions not restricted to specific programs	755,570	-	755,570
Unrestricted investment earnings	-	18,787	18,787
Total general revenues	6,338,030	18,787	6,356,817
Change in net assets	(519,390)	183,861	(335,529)
Net assets, beginning of year	16,002,154	6,302,922	22,305,076
<b>Net assets, end of year</b>	<b>\$ 15,482,764</b>	<b>\$ 6,486,783</b>	<b>\$ 21,969,547</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2005**

	<b>General</b>	<b>Local Streets</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and investments	\$ 3,916,630	\$ -	\$ 475,000	\$ 4,391,630
Receivables:				
Accounts receivable	190,550	-	-	190,550
Taxes-delinquent	281,590	-	-	281,590
Less: allowance for doubtful accounts	(45,116)	-	-	(45,116)
Interest and dividends	15,003	-	-	15,003
Due from other funds	302,166	136,152	19,167	457,485
Due from other governments	179,656	13,670	39,025	232,351
Advance to other fund	1,332,924	-	-	1,332,924
Prepaid expenditures	76,936	1,060	1,967	79,963
Total assets	<u>\$ 6,250,339</u>	<u>\$ 150,882</u>	<u>\$ 535,159</u>	<u>\$ 6,936,380</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 273,607	\$ 146,940	\$ 772	\$ 421,319
Accrued liabilities	219,467	2,882	1,911	224,260
Cash bonds and deposits	36,775	-	-	36,775
Due to other funds	763,342	-	29,676	793,018
Deferred revenue	35,828	-	-	35,828
Total liabilities	<u>1,329,019</u>	<u>149,822</u>	<u>32,359</u>	<u>1,511,200</u>
<b>Fund balances:</b>				
Reserved for:				
Prepays	76,936	1,060	1,967	79,963
Other purposes	1,430,120	-	-	1,430,120
Unreserved, designated	1,934,920	-	6,666	1,941,586
Unreserved, undesignated for:				
General funds	1,479,344	-	-	1,479,344
Special revenue funds	-	-	494,167	494,167
Total fund balances	<u>4,921,320</u>	<u>1,060</u>	<u>502,800</u>	<u>5,425,180</u>
Total liabilities and fund balances	<u>\$ 6,250,339</u>	<u>\$ 150,882</u>	<u>\$ 535,159</u>	<u>\$ 6,936,380</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET**  
**FOR GOVERNMENTAL FUNDS TO NET ASSETS OF**  
**GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2005**

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Fund balances - total governmental funds	\$ 5,425,180
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add: capital assets	27,976,619
Deduct: accumulated depreciation	(13,374,342)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds.

Add: deferred revenues	3,116
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct: interest payable	(44,853)
Deduct: bonds payable	(3,990,000)
Deduct: compensated absences	(512,956)

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Net assets of governmental activities	<u>\$ 15,482,764</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>General</b>	<b>Local Streets</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Property taxes	\$ 4,894,308	\$ -	\$ 178,184	\$ 5,072,492
Licenses and permits	71,922	-	-	71,922
Intergovernmental				
Federal	50,765	-	-	50,765
State	511,989	84,508	241,277	837,774
Charges for services	208,936	-	-	208,936
Fines and forfeitures	207,738	-	-	207,738
Interest and rent	235,482	-	-	235,482
Other	518,183	-	4,310	522,493
Total revenues	<u>6,699,323</u>	<u>84,508</u>	<u>423,771</u>	<u>7,207,602</u>
<b>Expenditures</b>				
Current:				
Judicial	136,967	-	-	136,967
General government	1,086,157	-	-	1,086,157
Public safety	2,755,007	-	397	2,755,404
Public works	1,012,839	427,465	301,025	1,741,329
Parks and recreation	574,766	-	-	574,766
Debt service				
Principal	-	-	165,000	165,000
Interest and fees	-	-	186,845	186,845
Capital outlay	258,977	195,943	1,616	456,536
Total expenditures	<u>5,824,713</u>	<u>623,408</u>	<u>654,883</u>	<u>7,103,004</u>
Revenues over (under) expenditures	<u>874,610</u>	<u>(538,900)</u>	<u>(231,112)</u>	<u>104,598</u>
<b>Other financing sources (uses)</b>				
Transfers in	-	539,960	173,661	713,621
Transfers out	(713,621)	-	-	(713,621)
Total other financing sources (uses)	<u>(713,621)</u>	<u>539,960</u>	<u>173,661</u>	<u>-</u>
Net change in fund balances	160,989	1,060	(57,451)	104,598
Fund balances, beginning of year	<u>4,760,331</u>	<u>-</u>	<u>560,251</u>	<u>5,320,582</u>
<b>Fund balances, end of year</b>	<u><u>\$ 4,921,320</u></u>	<u><u>\$ 1,060</u></u>	<u><u>\$ 502,800</u></u>	<u><u>\$ 5,425,180</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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Net change in fund balances - total governmental funds	\$	104,598
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay		456,536
Deduct: depreciation expense		(1,284,298)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to the following fiscal year.

Deduct: net difference in deferred revenue		(2,021)
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Repayment of bond principal is an expenditure in the governmental funds, but decreases debt in the statement of net assets.

Add: principal payments on long-term liabilities		165,000
Deduct: change in interest payable on long-term liabilities		(13,199)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Add: decrease in the accrual for compensated absences		53,994
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Change in net assets of governmental activities	\$	(519,390)
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The accompanying notes are an integral part of these financial statements.



**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 5,035,380	\$ 5,035,380	\$ 4,894,308	\$ (141,072)
Licenses and permits	80,204	80,204	71,922	(8,282)
Fines and forfeitures	206,772	206,772	207,738	966
Intergovernmental	740,078	740,078	562,754	(177,324)
Charges for services	192,195	192,195	208,936	16,741
Investment earnings	216,000	216,000	235,482	19,482
Other	336,891	333,891	518,183	184,292
Total revenues	<u>6,807,520</u>	<u>6,804,520</u>	<u>6,699,323</u>	<u>(105,197)</u>
<b>Expenditures</b>				
Judicial	144,650	145,000	136,967	(8,033)
General government	1,014,356	1,156,357	1,086,157	(70,200)
Public safety	2,667,525	2,719,526	2,755,007	35,481
Public works	1,123,429	1,123,429	1,012,839	(110,590)
Culture and recreation	640,981	640,981	574,766	(66,215)
Capital outlay	382,920	382,920	258,977	(123,943)
Total expenditures	<u>5,973,861</u>	<u>6,168,213</u>	<u>5,824,713</u>	<u>(343,500)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>833,659</u>	<u>636,307</u>	<u>874,610</u>	<u>238,303</u>
<b>Other financing sources (uses)</b>				
Transfers out	<u>(787,823)</u>	<u>(787,823)</u>	<u>(713,621)</u>	<u>74,202</u>
Net change in fund balances	45,836	(151,516)	160,989	312,505
Fund balance, beginning of year	<u>4,760,331</u>	<u>4,760,331</u>	<u>4,760,331</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 4,806,167</u></u>	<u><u>\$ 4,608,815</u></u>	<u><u>\$ 4,921,320</u></u>	<u><u>\$ 312,505</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**LOCAL STREETS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Revenues</b>				
Intergovernmental	\$ 78,000	\$ 78,000	\$ 84,508	\$ 6,508
<b>Expenditures</b>				
Construction	662,003	662,003	195,943	(466,060)
Routine maintenance	375,346	363,957	362,802	(1,155)
Winter maintenance	13,000	24,389	22,163	(2,226)
Traffic services	4,000	4,000	5,722	1,722
Administration	40,260	40,260	36,778	(3,482)
Total expenditures	1,094,609	1,094,609	623,408	(471,201)
Excess (deficiency) of revenues over (under) expenditures	(1,016,609)	(1,016,609)	(538,900)	477,709
<b>Other financing sources (uses)</b>				
Transfers in	1,101,848	1,101,848	539,960	(561,888)
Net change in fund balances	85,239	85,239	1,060	(84,179)
Fund balance, beginning of year	-	-	-	-
<b>Fund balance, end of year</b>	<b>\$ 85,239</b>	<b>\$ 85,239</b>	<b>\$ 1,060</b>	<b>\$ (84,179)</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2005**

	<b>Water Supply and Sewage Disposal System</b>	<b>Automobile Parking System</b>	<b>Marina</b>	<b>Total</b>
<b>Assets</b>				
Current assets:				
Cash and investments	\$ 669,535	\$ 990,616	\$ -	\$ 1,660,151
Receivables:				
Customers	421,578	-	-	421,578
Accrued interest	2,248	5,296	-	7,544
Other	845	18,632	-	19,477
Due from other funds	508,795	100,705	-	609,500
Prepaid expenses	2,054	1,006	80	3,140
Total current assets	<u>1,605,055</u>	<u>1,116,255</u>	<u>80</u>	<u>2,721,390</u>
Noncurrent assets:				
Capital assets not being depreciated	-	1,000,845	-	1,000,845
Capital assets being depreciated	4,632,344	1,811,102	2,251,075	8,694,521
Less accumulated depreciation	<u>(2,548,205)</u>	<u>(1,459,401)</u>	<u>(117,789)</u>	<u>(4,125,395)</u>
Net capital assets	<u>2,084,139</u>	<u>1,352,546</u>	<u>2,133,286</u>	<u>5,569,971</u>
Total assets	<u>3,689,194</u>	<u>2,468,801</u>	<u>2,133,366</u>	<u>8,291,361</u>
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	165,665	2,982	86	168,733
Accrued liabilities	3,361	2,839	149	6,349
Due to other funds	1,022	104,754	168,191	273,967
Unearned revenue	-	22,605	-	22,605
Total current liabilities	<u>170,048</u>	<u>133,180</u>	<u>168,426</u>	<u>471,654</u>
Noncurrent liabilities:				
Advance from other fund	-	-	1,332,924	1,332,924
Total liabilities	<u>170,048</u>	<u>133,180</u>	<u>1,501,350</u>	<u>1,804,578</u>
<b>Net Assets</b>				
Investment in capital assets, net of related debt	2,084,139	1,352,546	2,133,286	5,569,971
Unrestricted	<u>1,435,007</u>	<u>983,075</u>	<u>(1,501,270)</u>	<u>916,812</u>
Total net assets	<u>\$ 3,519,146</u>	<u>\$ 2,335,621</u>	<u>\$ 632,016</u>	<u>\$ 6,486,783</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Water Supply and Sewage Disposal System</b>	<b>Automobile Parking System</b>	<b>Marina</b>	<b>Total</b>
<b>Operating revenues</b>				
Water sales and sewage disposal	\$ 1,703,105	\$ -	\$ -	\$ 1,703,105
Parking lot and meter charges	-	325,745	-	325,745
Marina rentals and charges for services	-	-	151,325	151,325
Other revenue	16,325	4,651	-	20,976
Total operating revenues	1,719,430	330,396	151,325	2,201,151
<b>Operating expenses</b>				
General and administrative	127,478	133,220	-	260,698
Cost of water	258,081	-	-	258,081
Cost of sewage disposal	772,655	-	-	772,655
Operation and maintenance	248,540	97,625	67,575	413,740
Depreciation	127,098	47,676	75,129	249,903
Total operating expenses	1,533,852	278,521	142,704	1,955,077
Operating income (loss)	185,578	51,875	8,621	246,074
<b>Non-operating revenues (expenses)</b>				
Interest income	6,356	12,295	136	18,787
Interest expense	-	-	(81,000)	(81,000)
Total non-operating revenues (expenses)	6,356	12,295	(80,864)	(62,213)
Change in net assets	191,934	64,170	(72,243)	183,861
Net assets, beginning of year	3,327,212	2,271,451	704,259	6,302,922
<b>Net assets, end of year</b>	<b>\$ 3,519,146</b>	<b>\$ 2,335,621</b>	<b>\$ 632,016</b>	<b>\$ 6,486,783</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Water Supply and Sewage Disposal System</b>	<b>Automobile Parking System</b>	<b>Marina</b>	<b>Total</b>
<b>Cash flows from operating activities</b>				
Cash received from customers and others	\$ 1,738,328	\$ 321,458	\$ 151,672	\$ 2,211,458
Cash received from interfund balances	-	235,566	82,520	318,086
Cash payments for interfund balances	(192,207)	-	(17,076)	(209,283)
Cash payments to employees	(103,170)	(78,149)	(100,989)	(282,308)
Cash payments to suppliers for goods and services	(1,403,859)	(160,440)	(69,878)	(1,634,177)
Net cash provided (used) by operating activities	39,092	318,435	46,249	403,776
<b>Cash flows from investing activities</b>				
Investment income	6,356	12,295	136	18,787
Purchase of investment securities	(300,000)	(600,000)	-	(900,000)
Proceeds from sale and maturities of investment securities	455,000	297,000	100,000	852,000
Net cash provided (used) by investing activities	161,356	(290,705)	100,136	(29,213)
<b>Cash flows from capital and related financing activities</b>				
Interest payments on advance from other fund	-	-	(81,000)	(81,000)
Purchase of capital assets	(301,777)	(7,950)	(65,385)	(375,112)
Net cash used by capital and financing activities	(301,777)	(7,950)	(146,385)	(456,112)
Net increase (decrease) in cash and cash equivalents	(101,329)	19,780	-	(81,549)
Cash and cash equivalents, beginning of year	170,864	172,836	-	343,700
<b>Cash and cash equivalents, end of year</b>	<b>\$ 69,535</b>	<b>\$ 192,616</b>	<b>\$ -</b>	<b>\$ 262,151</b>
<b>Statement of net asset classification of cash and cash equivalents</b>				
Cash and investments	\$ 669,535	\$ 990,616	\$ -	\$ 1,660,151
Less investments with maturities in excess of three months	(600,000)	(798,000)	-	(1,398,000)
<b>Total cash and cash equivalents</b>	<b>\$ 69,535</b>	<b>\$ 192,616</b>	<b>\$ -</b>	<b>\$ 262,151</b>

(Continued)

**CITY OF GROSSE POINTE, MICHIGAN**  
**STATEMENT OF CASH FLOWS (CONCLUDED)**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Water Supply and Sewage Disposal System</b>	<b>Automobile Parking System</b>	<b>Marina</b>	<b>Total</b>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 185,578	\$ 51,875	\$ 8,621	\$ 246,074
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	127,098	47,676	75,129	249,903
Changes in assets and liabilities:				
Receivables	18,898	(8,938)	347	10,307
Due from other funds	(193,229)	130,812	-	(62,417)
Prepaid expenses	(2,054)	(1,006)	(80)	(3,140)
Accounts payable	(101,582)	(1,802)	(103,361)	(206,745)
Accrued liabilities	3,361	2,839	149	6,349
Due to other funds	1,022	104,754	65,444	171,220
Unearned revenue	-	(7,775)	-	(7,775)
<b>Net cash provided (used) by operating activities</b>	<u>\$ 39,092</u>	<u>\$ 318,435</u>	<u>\$ 46,249</u>	<u>\$ 403,776</u>

The accompanying notes are an integral part of these financial statements.

# CITY OF GROSSE POINTE, MICHIGAN

## STATEMENT OF FIDUCIARY NET ASSETS

### FIDUCIARY FUNDS

JUNE 30, 2005

	<b>Pension Trust Fund</b>	<b>Private Purpose Trust</b>
<b>Assets</b>		
Cash and cash equivalents	\$ 1,860,331	\$ 124,934
Interest receivable	156,165	-
Prepaid expenses	22,935	-
Investments		
U.S. Government obligations	3,347,393	-
Common stock	19,710,345	-
Corporate bonds	5,345,709	-
Other	623,800	-
Total investments	29,027,247	-
<b>Total assets</b>	<b>31,066,678</b>	<b>124,934</b>
 <b>Liabilities</b>		
Accounts payable	52,633	-
 <b>Net Assets</b>		
Held in trust for pension benefits	31,014,045	-
Unrestricted, undesignated	-	124,933
<b>Total net assets</b>	<b>\$ 31,014,045</b>	<b>\$ 124,933</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF GROSSE POINTE, MICHIGAN

## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED JUNE 30, 2005

	<b>Pension Trust Fund</b>	<b>Private Purpose Trust</b>
<b>Additions</b>		
Contributions - employee	\$ 167,801	\$ -
Investment income (loss)		
Interest and dividends	976,715	2,775
Net depreciation in fair value of investments	(675,660)	-
Other	-	89,125
Total investment earnings	301,055	91,900
<b>Total additions</b>	<b>468,856</b>	<b>91,900</b>
<b>Deductions</b>		
Retirement benefit payments	1,390,943	-
Health insurance payments	214,728	-
Administrative expenses	68,657	-
Project costs	-	32,317
<b>Total deductions</b>	<b>1,674,328</b>	<b>32,317</b>
<b>Change in net assets</b>	<b>(1,205,472)</b>	<b>59,583</b>
Net assets		
Beginning of year	32,219,517	65,350
<b>End of year</b>	<b>\$ 31,014,045</b>	<b>\$ 124,933</b>

The accompanying notes are an integral part of these financial statements.



# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of Grosse Pointe, Michigan (the “City” or “government”) is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the City (the primary government) and its component unit. The individual component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationships with the City.

The City of Grosse Pointe Building Authority is governed by a Board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. There are Building Authority bonds outstanding as of year-end, however there is no other activity related to the component unit.

#### B. Basis of Presentation - Government-Wide and Fund Financial Statements

***Government-wide financial statements.*** The statements of net assets and activities report information on all of the non-fiduciary activities of the primary government (the City.) For the most part, eliminations have been made to remove the effect of double-counting interfund activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities rely to a significant extent on fees and charges for services.

The statement of activities demonstrates the degree to which direct expenses are offset by program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable with a particular function or segment. Program revenues include (1) fees, fines and charges paid by the recipients of goods or services offered by the programs and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including taxes and other items, are presented as general revenues.

***Fund financial statements.*** The fund financial statements report in separate statements, information for governmental, proprietary and fiduciary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

***Government-wide, proprietary and fiduciary fund financial statements.*** The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

***Governmental fund financial statements.*** Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers revenues reported in the governmental funds to be available if they are collected within ninety days after year-end, with the exception of property taxes which are reported if they are collected within sixty days of year-end. Property taxes, franchise taxes, intergovernmental revenues, licenses and interest are considered to be susceptible to accrual.

Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

The City reports the following major governmental funds:

***General fund.*** This is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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*Local streets fund.* This fund accounts for financial resources to be used for the maintenance and construction of local roads.

The City reports the following major proprietary funds:

*Water and sewer fund.* This fund accounts for the activities of the City's water distribution, water treatment, sewage disposal and sewage treatment systems.

*Automobile parking fund.* This fund accounts for the activities of the City's parking lot activities.

*Marina fund.* This fund accounts for the activities of the City's marina.

Additionally, the City reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

*Debt service fund.* Accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*Pension trust fund.* This fund accounts for the activities of the Employees Retirement System, which accumulates resources for retirement benefits and post-retirement health care payments to qualified employees.

*Private purpose trust fund.* This fund accounts for the activities of the Grosse Pointe Foundation.

Both the government-wide and proprietary fund financial statements of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are minor charges between the governmental and business-type functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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### D. Assets, Liabilities and Equity

#### *Deposits and investments*

The City maintains an investment pool for all governmental City funds. Each fund's portion of the investment pool is displayed on the statement of net assets/balance sheet as "due from other funds". The general fund holds the investments in "cash and investments" on the fund's balance sheet. The business-type activities of the City have separate investments, by fund, which are classified on the financial statements as "cash and investments." The cash resources of the Employees Retirement System are invested separately.

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments. The State's Pension Investment Act, as amended, authorizes the pension trust fund, to invest in common stocks, real estate, and various other investment instruments, subject to certain limitations.

Investments are stated at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have established market values are reported at estimated fair value. Cash deposits are reported at carrying amounts, which reasonably approximates fair value.

Unrealized appreciation or depreciation on the pension trust fund investments due to changes in fair value are recognized each year.

#### *Receivables and payables*

All trade and delinquent property tax receivables are shown net of an allowance for uncollectibles, as applicable.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* (the current portion of inter-fund loans) or *advances to/from other funds* (the non-current portion of inter-fund loans.) Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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### *Prepaid items*

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

In the case of the initial capitalization of general infrastructure assets (i.e. those reported by the governmental activities) the government chose to include all such items regardless of their acquisition date or amount. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e. estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) Actual historical cost was used as available. As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	5-25
Vehicles and equipment	5-25
Improvements	15-25
Elworthy/parks and recreation	10-40
Other	2-10
Infrastructure	5-10

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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### *Compensated absences*

It is the government's policy to permit employees to accumulate earned but unused sick and compensatory time benefits, subject to certain limitations. All sick time pay is accrued at 50 percent of earned and unused leave hours in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

## **II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year-end, except for those approved by the City Council for carry forward. The legal level of budgetary control is the activity level for the general fund and the fund level for special revenue funds.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

The City Council requires the City's Director of Finance to submit an estimate of revenues and anticipated expenditures for the succeeding fiscal year in May. The City's Director of Finance is then authorized to assign and transfer budget amounts within each fund to the extent that the net total fund appropriation (which the City defines as gross authorized expenditures less related revenues that are specifically designated to fund those activities) is not exceeded. City Council approval is required for any budgetary changes that result in an increase to net appropriations.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

### B. Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2005, the City incurred expenditures in excess of the amounts appropriated as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund Activity:			
Public Safety	\$ 2,719,526	\$ 2,755,007	\$ 35,481

## III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

### A. Deposits and Investments

*Summary of Deposit and Investment Balances.* Following is a reconciliation of deposit and investment balances as of June 30, 2005:

#### Statement of Net Assets

Cash and cash equivalents	\$ 293,808
Short term investment pools	1,065,973
Investments	4,692,000
	<u>6,051,781</u>

#### Statement of Fiduciary Net Assets

Cash and cash equivalents	1,985,265
Investments	29,027,247
	<u>31,012,512</u>

<b>Total</b>	<u><u>\$ 37,064,293</u></u>
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# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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### Deposits and Investments

Bank deposits (checking accounts, savings accounts and CDs)	\$ 4,362,001
Investments in securities, mutual funds and similar vehicles	32,701,677
Cash on hand	615
<b>Total</b>	<u><u>\$ 37,064,293</u></u>

### *Statutory Authority*

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers' acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

### *Deposits and investments*

The City chooses to disclose its investments using the segmented time distribution method. As of June 30, 2005 the City had the following investments.



# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

Investment Type	Amount	Remaining Maturity in Years			
		1 year or less	Greater than 1, less than 5	Greater than 5, less than 10	More than 10
U.S. Treasury notes	\$ 563,889	\$ -	\$ 563,889	\$ -	\$ -
Federal Agency securities & asset backed	3,433,504	-	1,419,550	1,913,954	100,000
Corporate bonds	5,345,708	-	2,729,858	2,449,576	166,274
Common stock	19,710,345	n/a	n/a	n/a	n/a
American Depositary Receipts	623,800	n/a	n/a	n/a	n/a
Held by trustee:					
Short-term investment Fund	1,958,458	n/a	n/a	n/a	n/a
Investment pool	1,065,973	n/a	n/a	n/a	n/a
Total	\$ <u>32,701,677</u>	\$ <u>-</u>	\$ <u>4,713,297</u>	\$ <u>4,363,530</u>	\$ <u>266,274</u>

### **Investment and deposit risk:**

*Interest Rate Risk.* State law limits the allowable investments and the maturities of some of the allowable investments as identified in the above list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to specific government securities, certificates of deposit and bank accounts with qualified institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in the list of authorized investments above. In compliance with State law, the City's investments policy limits investments to the top two ratings issued by nationally recognized statistical rating organizations. The City's investment policy does not have specific limits in excess of state law on investment credit risk. As of June 30, 2005, the credit quality rating on the City's investments in corporate bonds were Ba1 to Aaa by Moody's and BB to AAA by Standard and Poor's.

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year-end \$2,368,255 of the City's bank balance of \$4,467,816 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State law does not require and the City does not have a policy for investment custodial credit risk. On the investments listed above, there is no custodial credit risk, as these investments are either uninsured, unregistered, held by a counterparty in the City's name (category two) or are uncategorized as to credit risk.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in the list of authorized investments above. The City's investment policy does not have specific limits in excess of state law on concentration of credit risk. The investments in Federal agencies, corporate bonds, common stock and the short-term investment fund held by trustee, listed above are in excess of 5% of the City's total investments. All investments held at year-end are reported above.

Mutual and cash management funds are registered with the SEC. The Michigan Banking Act regulates these bank investment pools. The fair value of the position in the bank investment pools is the same as the value of the pool shares. The bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in these funds comply with the investment authority noted above.

### B. Receivables

Receivables in the governmental activities are 34.5 percent due from other governments, 28.3 percent accounts receivable, 35.0 percent taxes and special assessments and 2.2 percent accrued interest. Business-type activities receivables are 94.0 percent due from customers, 1.7 percent accrued interest and 4.3 percent due from other sources.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Personal property taxes not yet received	\$ 3,116	\$ -	\$ 3,116
Payments in advance of services	-	32,712	32,712
	<u>\$ 3,116</u>	<u>\$ 32,712</u>	<u>\$ 35,828</u>

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

### C. Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets, not being depreciated -				
Land	\$ 953,739	\$ -	\$ -	\$ 953,739
Total capital assets not being depreciated	953,739	-	-	953,739
Capital assets, being depreciated:				
Buildings	5,624,031	-	-	5,624,031
Vehicles and equipment	2,314,011	206,543	(71,162)	2,449,392
Improvements	620,137	54,050	-	674,187
Elworthy/parks & recreation	371,997	-	-	371,997
Other	4,198,936	-	-	4,198,936
Infrastructure	13,508,394	195,943	-	1,3704,337
Total capital assets being depreciated	26,637,506	456,536	(71,162)	27,022,880
Less accumulated depreciation for				
Buildings	\$ (1,132,123)	\$ (230,227)	\$ -	\$ (1,362,350)
Vehicles and equipment	(1,466,138)	(212,648)	71,162	(1,607,624)
Improvements	(33,259)	(34,839)	-	(68,098)
Elworthy/parks & recreation	(54,602)	(22,873)	-	(77,475)
Other	(1,213,971)	(172,459)	-	(1,386,430)
Infrastructure	(8,261,113)	(611,252)	-	(8,872,365)
Total accumulated depreciation	(12,161,206)	(1,284,298)	71,162	(13,374,342)
Total capital assets being depreciated, net	14,476,300	(827,762)	-	13,648,538
Governmental activities capital assets, net	\$ 15,430,039	\$ (827,762)	\$ -	\$ 14,602,277

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets, not being depreciated -				
Land	\$ 1,000,845	\$ -	\$ -	\$ 1,000,845
Total capital assets not being depreciated	1,000,845	-	-	1,000,845
Capital assets, being depreciated:			-	
Parking ramp and lot improvements	1,542,042	-	-	1,542,042
Machinery and equipment	360,640	15,900	-	376,540
Utility system	4,231,036	293,828	-	4,524,864
Marina	2,185,689	65,384	-	2,251,073
Total capital assets being depreciated	8,319,407	375,112	-	8,694,519
Less accumulated depreciation for				
Parking ramp and lot improvements	(1,196,818)	(35,966)	-	(1,232,784)
Machinery and equipment	(269,685)	(24,242)	-	(293,927)
Utility system	(2,366,328)	(114,565)	-	(2,480,893)
Marina	(42,659)	(75,130)	-	(117,789)
Total accumulated depreciation	(3,875,490)	(249,903)	-	(4,125,393)
Total capital assets being depreciated, net	4,443,917	125,209	-	4,569,126
Business-type activities capital assets, net	\$ 5,444,762	\$ 125,209	\$ -	\$ 5,569,971

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental activities</b>	
General government	\$ 67,706
Public safety	110,749
Public works	888,255
Recreation and culture	217,588
Total depreciation expense - governmental activities	\$ 1,284,298
<b>Business-type activities</b>	
Water and sewer	\$ 127,098
Automobile parking	47,676
Marina	75,129
	\$ 249,903

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

### D. Interfund Receivables, Payables and Transfers

The following are the interfund receivables and payables balances at June 30, 2005:

Fund Due To	Fund Due From	Amount
General fund	Nonmajor governmental funds	\$ 29,676
	Marina	166,714
	Automobile parking system	104,754
	Water supply and sewage disposal	1,022
Local streets fund	General fund	136,152
Nonmajor governmental funds:		
Drug forfeiture fund	General fund	19,167
Proprietary funds		
Water supply and sewage disposal	General fund	507,318
	Marina	1,477
Automobile parking system	General Fund	100,705
		<u>\$ 1,066,985</u>

Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end, and other miscellaneous receivables/payables between funds.

Additionally, there is an advance from the General Fund to the Marina for \$1,332,924 that was used by the Marina fund in the construction of the new marina.

For the year then ended, interfund transfers consisted of the following:

	Transfer In	
	Local Streets	Nonmajor Governmental
General fund	<u>\$ 538,900</u>	<u>\$ 173,661</u>
		<u>\$ 712,561</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

### E. Long-term Debt

*Building Authority Bonds.* The government issues building authority bonds to finance the renovations of the City Hall building.

*General obligation bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities.

<u>Purpose</u>	<u>Interest Rate</u>	<u>Maturing Through</u>	<u>Amount</u>
<b>Governmental activities</b>			
Building Authority Bonds	4.00% - 4.90%	2014	\$ 1,540,000
Unlimited Tax General Obligation Bonds	4.25% - 5.00%	2020	2,450,000
			<u>\$ 3,990,000</u>

Annual debt service requirements to maturity for all debt outstanding as of June 30, 2005 (excluding employee benefits) are as follows:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 185,000	179,413
2007	210,000	171,258
2008	210,000	162,449
2009	235,000	152,950
2010	255,000	142,287
2011-2015	1,595,000	509,905
2016-2020	1,050,000	193,560
2021	250,000	5,468
	<u>\$ 3,990,000</u>	<u>\$ 1,517,290</u>

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities</b>					
Building Authority Bonds	\$ 1,655,000	\$ -	\$ (115,000)	\$ 1,540,000	\$ 110,000
Unlimited Tax General Obligation Bonds	2,500,000	-	(50,000)	2,450,000	75,000
Accrued compensated Absences	566,950	-	(53,994)	512,956	326,440
	<u>\$ 4,721,950</u>	<u>\$ -</u>	<u>\$ (218,994)</u>	<u>\$ 4,502,956</u>	<u>\$ 511,440</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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### F. Segment Information – Enterprise Funds

Each enterprise fund is a segment and is reported in a separate column in the fund financial statements; therefore, segment disclosures herein are not required.

### G. Reserves, Designations and Restrictions of Fund Balance and Net Assets

*Reserves* Reserved fund balances are legal restrictions on fund balance imposed by sources outside the City, which typically involve donor restrictions for specific purposes of City financial resources.

*Designations* Designated fund balances are designations imposed by the City on the use of fund balance for specific purposes.

*Restricted Net Assets* Restricted net assets on the Statement of Net Assets are similar to reserved fund balance in that a portion of net assets are legally restricted for a specific purpose as imposed by sources outside of the City.

The schedule of reserved and designated fund balances is as follows:

	<b>Reserved Fund Balance</b>	<b>Designated Fund Balance</b>
<b>Governmental activities:</b>		
Loan to City Manager	\$ 97,196	\$ -
Advances to other funds	1,332,924	-
Prepays	79,963	
Accrued compensated absences		512,956
Future equipment purchases	-	116
Fire truck	-	234,467
Subsequent year's budget	-	194,047
Cable TV proceeds	-	1,000,000
	<u>\$ 1,510,083</u>	<u>\$ 1,941,586</u>

## IV. OTHER INFORMATION

### A. Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for all types of claims.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

# **CITY OF GROSSE POINTE, MICHIGAN**

## **Notes To Financial Statements**

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### **B. Property Taxes**

Property taxes attach as an enforceable lien on property as of December 31 each year. City taxes are levied on the following July 1, and are due on August 10 with the final collection date of February 28 before they are added to the County tax rolls.

Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2004 levy was \$359,661,475. The government's general operating tax rate for fiscal 2004-05 was 13.00 mills with an additional 5.00 mills for City debt.

Property taxes are recognized in the fiscal year in which they are levied.

### **C. Contingent Liabilities**

#### **State Tax Commission v. City of Grosse Pointe, Michigan**

In October 2001, the Michigan State Tax Commission initiated a petition against the City asserting that the City's waterfront municipal park is subject to County and School property taxes. The City is contesting the petition. If the State's position is sustained, there would be a potential financial impact of approximately \$10,000 per year for 2001 and 2002, and approximately \$50,000 per year for 2003 and thereafter, to be paid from the City's General Fund.

In July of 2004, the Michigan Tax Tribunal entered judgment finding that the City's liability was less than \$200 per year. The Tax Commission has appealed to the Michigan Court of Appeals.

#### **Grosse Pointes-Clinton Refuse Disposal Authority**

In April 2003, the State of Michigan Department of Environmental Quality (the "MDEQ") sent to the City, and numerous other potentially responsible parties, a Demand for Reimbursement of State Costs for remediation of the Fort Gratiot Sanitary Landfill due to the City's membership in the Grosse Pointes-Clinton Refuse Authority (the "Authority"), a separate corporation. The letter demanded payment in the amount of \$1,723,157, plus continuing costs and interest. The total remediation costs for all eight member communities of the Authority are currently estimated at approximately \$10,000,000.

In August 2003, the Authority issued a letter to the MDEQ requesting that all member communities be eliminated from the MDEQ's list of potential responsible parties. The City intends to vigorously pursue its defense as a potential responsible party, but cannot now readily determine what the outcome will be.



# **CITY OF GROSSE POINTE, MICHIGAN**

## **Notes To Financial Statements**

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### **General**

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

### **D. Post-employment Benefits**

#### **Retiree Health Care**

The City provides health care benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 37 retirees and their spouses are receiving benefits. The City includes pre-Medicare retirees and their spouses in its insured health care plan and pays a percentage of the premiums based on the number of years of service for all retirees. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for post-employment health care benefits are paid by the Pension Trust Fund and recognized as the insurance premiums become due; during the year, this amounted to approximately \$215,000.

#### **Defined Benefit Pension Plan**

##### **Plan Description**

The City of Grosse Pointe Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Grosse Pointe. This plan covers all full-time employees of the City. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 47 retirees and beneficiaries currently receiving benefits and 2 terminated employees entitled to benefits but not yet receiving them, and 48 current active employees. The plan does not issue a separate financial report. The system provides retirement and post-employment benefits as well as death and disability benefits.

##### **Contributions**

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note I-D. and III-A. for investment information.

# CITY OF GROSSE POINTE, MICHIGAN

## Notes To Financial Statements

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The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's collective bargaining unit and other employee groups and requires a contribution from the public safety employees of 6 percent and all other city employees of 5 percent of gross wages. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

### Annual Pension Cost

For the year ended June 30, 2005 the City's annual pension costs were fully funded with credits resulting from the amortization of plan assets in excess of plan liabilities. The City was not required and did not make a contribution during the year. The entry age actuarial cost method was used to determine the required contribution of \$0 based on the December 31, 2002 actuarial valuation. Significant actuarial assumptions used include (a) a 7.50 percent investment rate of return and (b) projected salary increases of 5.5 percent to 9.5 percent per year. Both (a) and (b) include an inflation component of 5.0 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 10 years.

### Trend Information

<b>Fiscal Year</b>	<b>Annual Pension Cost</b>	<b>Percentage Contributed</b>	<b>Net Pension Obligation (NPO)</b>
2004	\$ -	n/a	\$ -
2003	-	n/a	-
2002	-	n/a	-

\* \* \* \* \*

***REQUIRED SUPPLEMENTARY  
INFORMATION***

# CITY OF GROSSE POINTE, MICHIGAN

## Required Supplementary Information (Unaudited)

### Retirement Benefits:

#### Schedule Of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded AAL (a-b)	Funded Ratio (Percentage) (a/b)	Covered Payroll (c)	Overfunded AAL as a Percentage of Covered Payroll
12/31/99	\$ 27,760,423	\$ 15,880,256	\$ 11,880,167	174.8	\$ 2,486,678	477.8
12/31/00	30,261,530	16,924,392	13,337,138	178.8	2,598,727	513.2
12/31/02	27,681,156	19,081,040	8,600,116	145.1	2,595,147	331.4
12/31/03	29,139,491	18,887,820	10,251,671	154.3	2,902,824	353.2
12/31/04	30,277,581	19,566,266	10,711,315	154.7	2,750,353	389.5

There was no actuarial valuation performed as of December 31, 2001.

#### Schedule of Employer Contributions

Years Ended June 30	Annual Required Contribution	Percentage Contributed
2001	-	n/a
2002	-	n/a
2003	-	n/a
2004	-	n/a
2005	-	n/a

### Post-employment Benefits

#### Schedule Of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (Percentage) (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll
12/31/99	\$ 2,426,090	\$ 2,607,511	\$ 181,421	93.0	\$ 2,486,678	7.3
12/31/00	2,551,571	3,107,305	555,734	82.1	2,598,727	21.4
12/31/02	1,403,232	2,254,340	851,108	62.2	2,595,147	32.3
12/31/03	1,403,232	2,753,152	1,349,920	51.0	2,902,824	46.5
12/31/04	1,403,232	2,988,814	1,585,582	46.9	2,750,353	57.7

There was no actuarial valuation performed as of December 31, 2001.

# **CITY OF GROSSE POINTE, MICHIGAN**

## **Required Supplementary Information (Unaudited)**

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The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2004, the latest actuarial valuation, follows:

Actuarial cost method	Individual entry age
Amortization method	Level percent of payroll, closed
Remaining amortization period	10 years
Asset valuation method	4 Year Smoothed Market value
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases *	5.5% - 9.5%
* Includes inflation at	5.0%
Cost of living adjustments	None

**CITY OF GROSSE POINTE, MICHIGAN**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2005**

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Major Streets</u>	<u>Drug Forfeiture</u>	<u>Budget Stabilization</u>	<u>Debt Service</u>	
<b>Assets</b>					
Cash and investments	\$ -	\$ -	\$ 475,000	\$ -	\$ 475,000
Due from other funds	-	19,167	-	-	19,167
Due from other governments	39,025	-	-	-	39,025
Prepaid expenditures	1,967	-	-	-	1,967
	<u>\$ 40,992</u>	<u>\$ 19,167</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 535,159</u>
<b>Liabilities</b>					
Accounts payable	\$ 772	\$ -	\$ -	\$ -	\$ 772
Accrued liabilities	1,911	-	-	-	1,911
Due to other funds	29,676	-	-	-	29,676
	<u>32,359</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,359</u>
<b>Fund balance:</b>					
Reserved for:					
Prepays	1,967	-	-	-	1,967
Unreserved					
Designated	6,666	-	-	-	6,666
Undesignated	-	19,167	475,000	-	494,167
Total fund balances	<u>8,633</u>	<u>19,167</u>	<u>475,000</u>	<u>-</u>	<u>502,800</u>
<b>Total liabilities and fund balance</b>	<u>\$ 40,992</u>	<u>\$ 19,167</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 535,159</u>

**CITY OF GROSSE POINTE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Special Revenue</u>			<u>Debt Service</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Major Streets</u>	<u>Drug Forfeiture</u>	<u>Budget Stabilization</u>	<u>Debt Service</u>	
<b>Revenues</b>					
Property taxes	\$ -	\$ -	\$ -	\$ 178,184	\$ 178,184
Intergovernmental					
State	241,277	-	-	-	241,277
Other	-	4,310	-	-	4,310
Total revenues	<u>241,277</u>	<u>4,310</u>	<u>-</u>	<u>178,184</u>	<u>423,771</u>
<b>Expenditures</b>					
Current:					
Public safety	-	397	-	-	397
Public works					
Routine maintenance	234,176	-	-	-	234,176
Winter maintenance	27,591	-	-	-	27,591
Traffic service	21,927	-	-	-	21,927
Administration	17,331	-	-	-	17,331
Debt service					
Principal	-	-	-	165,000	165,000
Interest and fees	-	-	-	186,845	186,845
Capital outlay	-	1,616	-	-	1,616
Total expenditures	<u>301,025</u>	<u>2,013</u>	<u>-</u>	<u>351,845</u>	<u>654,883</u>
Revenues over (under) expenditures	(59,748)	2,297	-	(173,661)	(231,112)
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	173,661	173,661
Net change in fund balances	(59,748)	2,297	-	-	(57,451)
Fund balances, beginning of year	<u>68,381</u>	<u>16,870</u>	<u>475,000</u>	<u>-</u>	<u>560,251</u>
<b>Fund balances, end of year</b>	<u>\$ 8,633</u>	<u>\$ 19,167</u>	<u>\$ 475,000</u>	<u>\$ -</u>	<u>\$ 502,800</u>

**CITY OF GROSSE POINTE, MICHIGAN**  
**DETAILED SCHEDULE OF REVENUE AND EXPENDITURES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Property taxes</b>				
Property taxes	\$ 4,849,430	\$ 4,849,430	4,698,258	\$ (151,172)
Payments in lieu of taxes	60,000	60,000	60,000	-
Property tax administration fees	107,450	107,450	110,494	3,044
Interest, penalties and other	18,500	18,500	25,556	7,056
<b>Total property taxes</b>	<b>5,035,380</b>	<b>5,035,380</b>	<b>4,894,308</b>	<b>(141,072)</b>
<b>Licenses and permits</b>				
Business licenses	5,300	5,300	6,042	742
Building permits	40,000	40,000	38,422	(1,578)
Electrical, heating and plumbing permits	23,400	23,400	19,438	(3,962)
Code enforcement	11,000	11,000	7,305	(3,695)
Other	504	504	715	211
<b>Total licenses and permits</b>	<b>80,204</b>	<b>80,204</b>	<b>71,922</b>	<b>(8,282)</b>
<b>Federal sources</b>				
FEMA grant	135,000	135,000	-	(135,000)
CDBG program	67,000	67,000	50,765	(16,235)
Other Federal revenue	20,000	20,000	-	(20,000)
<b>Total federal sources</b>	<b>222,000</b>	<b>222,000</b>	<b>50,765</b>	<b>(171,235)</b>
<b>State sources</b>				
Revenue-sharing	515,978	515,978	508,408	(7,570)
Liquor license fees	2,100	2,100	3,581	1,481
<b>Total state sources</b>	<b>518,078</b>	<b>518,078</b>	<b>511,989</b>	<b>(6,089)</b>
<b>Charges for services</b>				
Recreation program fees	22,295	22,295	23,683	1,388
Refuse and recycling collection	97,000	97,000	115,024	18,024
Vital statistics and ambulance fees	56,400	56,400	53,812	(2,588)
Other charges for services	16,500	16,500	16,417	(83)
<b>Total charges for services</b>	<b>192,195</b>	<b>192,195</b>	<b>208,936</b>	<b>16,741</b>

(Continued)



**CITY OF GROSSE POINTE, MICHIGAN**  
**DETAILED SCHEDULE OF REVENUE AND EXPENDITURES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>			<b>Actual Over (Under)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Fines and forfeitures</b>				
Municipal Court and probation fees	\$ 206,772	\$ 206,772	\$ 207,738	\$ 966
<b>Interest and rent</b>				
Interest	216,000	216,000	235,482	19,482
<b>Other revenue</b>				
Miscellaneous	125,692	122,692	199,347	76,655
Proceeds from insurance	-	-	62,867	62,867
Sale of capital assets	2,500	2,500	6,500	4,000
Reimbursements from other funds	208,699	208,699	249,469	40,770
<b>Total other revenue</b>	<b>336,891</b>	<b>333,891</b>	<b>518,183</b>	<b>184,292</b>
<b>Total revenue</b>	<b>\$ 6,807,520</b>	<b>\$ 6,804,520</b>	<b>\$ 6,699,323</b>	<b>\$ (105,197)</b>

**CITY OF GROSSE POINTE, MICHIGAN**  
**DETAILED SCHEDULE OF REVENUE AND EXPENDITURES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>			<b>Actual (Over) Under</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final Budget</b>
<b>Judicial</b>				
Personnel	\$ 81,256	\$ 81,256	\$ 79,118	\$ 2,138
Supplies and capital outlay	5,020	5,370	2,740	2,630
Professional and contractual	58,374	58,374	55,109	3,265
<b>Total judicial</b>	<b>144,650</b>	<b>145,000</b>	<b>136,967</b>	<b>8,033</b>
<b>General government</b>				
City administration				
Personnel	174,278	174,278	167,909	6,369
Supplies and capital outlay	86,497	89,497	57,337	32,160
Professional and contractual	256,227	360,227	344,397	15,830
Human resources				
Personnel	55,435	55,435	55,220	215
Supplies and capital outlay	6,640	6,640	6,039	601
Clerk/Elections				
Personnel	72,670	72,670	70,261	2,409
Supplies and capital outlay	2,650	2,650	1,174	1,476
Professional and contractual	10,540	10,540	9,136	1,404
Finance				
Personnel	182,445	203,545	203,275	270
Supplies and capital outlay	300	300	24	276
Professional and contractual	19,900	33,800	29,755	4,045
Board of Review	62,790	62,791	59,672	3,119
Inspections	83,984	83,984	81,958	2,026
<b>Total general government</b>	<b>1,014,356</b>	<b>1,156,357</b>	<b>1,086,157</b>	<b>70,200</b>
<b>Public safety</b>				
Personnel	2,327,489	2,393,490	2,335,562	57,928
Supplies and capital outlay	70,006	68,006	78,549	(10,543)
Professional and contractual	270,030	258,030	340,896	(82,866)
<b>Total public safety</b>	<b>2,667,525</b>	<b>2,719,526</b>	<b>2,755,007</b>	<b>(35,481)</b>

**CITY OF GROSSE POINTE, MICHIGAN**  
**DETAILED SCHEDULE OF REVENUE AND EXPENDITURES**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Actual (Over) Under Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Public works</b>				
Department of Public Works				
Personnel	\$ 543,645	\$ 543,645	\$ 477,259	\$ 66,386
Supplies and capital outlay	70,120	70,120	60,201	9,919
Refuse disposal	173,500	173,500	146,978	26,522
Recycling	66,144	66,144	66,929	(785)
Street lighting	171,564	171,564	144,595	26,969
Other professional and contractual	98,456	98,456	116,877	(18,421)
<b>Total public works</b>	<b>1,123,429</b>	<b>1,123,429</b>	<b>1,012,839</b>	<b>110,590</b>
<b>Parks and recreation</b>				
Personnel	370,686	370,686	358,490	12,196
Supplies and capital outlay	44,895	44,895	42,436	2,459
Professional and contractual	225,400	225,400	173,840	51,560
<b>Total parks and recreation</b>	<b>640,981</b>	<b>640,981</b>	<b>574,766</b>	<b>66,215</b>
<b>Capital outlay</b>	<b>382,920</b>	<b>382,920</b>	<b>258,977</b>	<b>123,943</b>
<b>Other financing uses</b>				
Transfers out	787,823	787,823	713,621	74,202
<b>Total expenditures and other financing uses</b>	<b>\$ 6,761,684</b>	<b>\$ 6,956,036</b>	<b>\$ 6,538,334</b>	<b>\$ 417,702</b>

**CITY OF GROSSE POINTE, MICHIGAN**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**MAJOR STREETS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	<b>Budgeted Amounts</b>			<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
Intergovernmental	\$ 222,000	\$ 222,000	\$ 241,277	\$ 19,277
<b>Expenditures</b>				
Routine maintenance	245,730	198,058	234,176	36,118
Winter maintenance	19,500	57,394	27,591	(29,803)
Traffic services	6,800	16,577	21,927	5,350
Administration	30,744	30,744	17,331	(13,413)
Total expenditures	302,774	302,773	301,025	(1,748)
Net change in fund balances	(80,774)	(80,773)	(59,748)	21,025
Fund balance, beginning of year	68,381	68,381	68,381	-
<b>Fund balance (deficit), end of year</b>	<b>\$ (12,393)</b>	<b>\$ (12,392)</b>	<b>\$ 8,633</b>	<b>\$ 21,025</b>

***COMBINING AND INDIVIDUAL FUND  
FINANCIAL STATEMENTS AND SCHEDULES***



**REHMANN ROBSON**

*Certified Public Accountants*

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING  
STANDARDS**

November 29, 2005

To the City Council  
City of Grosse Pointe, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the *City of Grosse Pointe, Michigan* as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 29, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the *City of Grosse Pointe, Michigan's* internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Grosse Pointe, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Mayor and City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of THE REHMANN GROUP*

*An Independent Member of Baker Tilly International*

November 29, 2005

The City Council  
City of Grosse Pointe

In planning and performing our audit of the financial statements of the *City of Grosse Pointe* (the "City"), for the year ended June 30, 2005, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions concerning those matters. This letter does not affect our report dated November 29, 2005, on the financial statements of the *City of Grosse Pointe*.

The accompanying comments and recommendations are intended solely for the information and use of the audit committee, management, and others within the organization and should not be used by anyone other than these specified parties.

We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

We would like to thank the staff and management of the *City of Grosse Pointe* for their assistance and cooperation in completing the audit.



**A.) INVESTMENTS**

During the beginning of our audit procedures, we noted that the City had not reconciled the investment accounts in a timely manner.

The City did ultimately reconcile all of the investment accounts through June 30, 2005, and we believe that the lack of timeliness was likely due to the fact that there were four different finance directors during that period of time.

**Recommendation**

We would recommend that the City consistently reconcile the investment statements to the general ledger control accounts on a monthly basis. A lack of timeliness could increase the risk of misstatement during the interim period and undermine the security of the assets. In addition the City may want to consider segregating this responsibility by having this procedure performed by an associate who is independent from making bank transactions or posting journal entries to the general ledger.

**B.) BUDGET AMENDMENTS**

During our audit, we became aware of instances of noncompliance with PA2 of 1968 – excess of expenditures over appropriations. Our follow up procedures indicated that budget amendments appeared to have been updated only once during the fiscal year.

**Recommendation**

We would recommend that the City consider performing budget amendments on a quarterly or semi-annual basis. This will provide more timely information for Council and management analysis when considering the effects of actual results when compared to budgeted appropriations and provide an environment to proactively manage the budget when actual amounts are expected to exceed appropriations at the legal level of budget control.

**C.) COST ALLOCATION BASE USED TO CHARGE COSTS BETWEEN FUNDS**

During our audit, we noted that the City does not have a formal methodology for establishing a basis for allocating costs between different funds. Currently, the City does have an informal cost allocation policy.

**Recommendation:**

The City should implement a formal cost allocation policy to properly allocate expenses between funds. The policies/procedures should be documented in writing.

We will use Payroll as an example to demonstrate a proper allocation. Management should reasonably assess the amount of time (possibly on a percentage of hours worked) that each of its employees **regularly** spends engaged in activities for a certain fund. Management should then allocate payroll expenses between funds using the previously assessed percentages.

**D.) CAPITAL ASSETS**

During our audit we noted that the City's capital asset listing did not match the general ledger nor the financial statements (by category). Additionally, the program's detail listing of capital assets for the City has not been adequately maintained. For example, streets did not have appropriate net realizable values calculated by the system (due to incorrect in-service dates and remaining estimated useful lives.) Also, the current software, or utilization of the software does not produce useful reports for reconciliation to the general ledger.

We believe that the absence of well-maintained and well-documented capital asset accounts could result in inaccurate financial reporting.

**Recommendation:**

We would recommend that the City update and integrate the automated system to record and depreciate governmental and proprietary assets including infrastructure into the financial reporting process. The City should ensure that Capital Asset details agree to the general ledger and to financial statements by category.

**E.) POSTRETIRMENT HEALTH CARE**

GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other than Pensions* will first be effective for the City's 2008/2009 fiscal year. Generally, the provisions of this statement will require the City to have an actuarial valuation performed of its post-employment benefits other than pensions, (i.e. post-employment health care) and will require the City to recognize at the governmental wide level or to make actuarially determined contributions to a trust or equivalent type account to pay for those benefits.

**Recommendation:**

We would recommend that the City consider the future financial impact on the City by reviewing the Rodwan Consulting Company actuarial study as of December 31, 2004 of what the required contributions will be as compared to the current "pay as you go" method that the City currently employs.

There are many things that the City can do to mitigate the financial impact with proper planning and an early action plan. This includes beginning to pre-fund this liability, which will ultimately reduce the actuarially required contributions at the time of implementation. In addition, the City may consider eliminating or offering an alternative benefit such as a defined contribution plan in lieu of a defined benefit plan to new employees.

**F.) MARINA OPERATIONS**

The Marina fund has an outstanding advance from the General fund of over \$1.3 million as well as amounts due to other funds of approximately \$168,000 (nearly double the balance at 6/30/04). The annual principal and interest requirement related to the advance is \$98,076.

Marina rentals and charges for services covered operating expenses in fiscal year 2005, however they did not fully cover the annual cost of the internal debt. Thus, the Marina experienced an increase in the amounts due to other funds and the decrease in net assets of \$72,000.

**Recommendation:**

The City should review the current fee structure at the Marina in order to determine if all costs can be recovered by charges/rentals, and consider other options in order to meet the debt service requirements.

**G.) CONTRIBUTIONS TO CIVIC GROUPS, NONPROFITS, ETC.**

The City makes contributions to various civic groups, associations, etc. Unless the City has a contractual agreement with these groups that identifies that the City has a vendor relationship with them and the payments are for specific services provided to the City, contributions of this nature are likely not to be considered an eligible expense under current state guidelines.

During our audit procedures, we noted a donation to the Children's Home of Detroit for \$8,766. As stated above, this donation is likely an ineligible expense under Michigan Department of Treasury guidelines.

**Recommendation:**

The City should examine the service agreements it has with the recipients of these contributions and ensure that the payments to these groups do not violate any provisions of laws that govern this type of activity.